

**LEGISLATIVE SERVICES AGENCY  
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**FISCAL IMPACT STATEMENT**

**LS 7079**

**BILL NUMBER:** SB 336

**NOTE PREPARED:** Jan 7, 2009

**BILL AMENDED:**

**SUBJECT:** Exclusion of Certain Interest from Income Tax.

**FIRST AUTHOR:** Sen. Kruse

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** X GENERAL  
DEDICATED  
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** The bill provides an exclusion from the Adjusted Gross Income Tax for interest on deposits received by individuals.

**Effective Date:** January 1, 2010.

**Explanation of State Expenditures:** The Department of State Revenue (DOR) will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the new income exclusion. The DOR's current level of resources should be sufficient to implement the new deduction.

**Explanation of State Revenues:** *Summary* -The bill could potentially reduce revenue from the Individual Adjusted Gross Income (AGI) Tax by up to \$70 M or \$80 M annually.

The bill allows an individual taxpayer to deduct from Indiana AGI, interest on deposits with financial institutions or held by insurance companies that is included in the taxpayer's federal AGI. (Note: Federal AGI is the computational starting point for the Individual AGI Tax.) The revenue loss estimates are based on interest income reported annually on federal income tax returns by Indiana residents from 2002 to 2006. The reported interest amounts include interest on bank deposits, accumulated dividends paid by a life insurance company, and indebtedness including bonds, debentures, notes, and certificates other than those of the U.S. Treasury. Data detailing the specific types of interest income reported by taxpayers is not available, so the reported amounts may include interest income not excluded by the bill. Thus, the revenue loss from the bill could be lower to the extent that interest income totals used for the estimates include forms of interest income not excluded under the bill.

Since the deduction is effective beginning in tax year 2010, the revenue loss would begin in FY 2011. Revenue from the Individual AGI Tax is distributed to the state General Fund.

**Background Information** - The deduction applies to interest on deposits:

- (1) with a corporation transacting the business of a financial institution, including a holding company, a regulated financial corporation, a subsidiary of a holding company or regulated financial corporation, or any other corporation carrying on the business of a financial institution; or
- (2) held by an insurance company under an agreement to pay the individual interest on the amount held.

Regulated financial corporations include: (1) an institution with deposits insured by the FDIC; (2) an institution that is a member of a Federal Home Loan Bank; (3) any other bank or thrift institution incorporated or organized under the laws of a state that is engaged in the business of receiving deposits; (4) a credit union incorporated and organized under Indiana law; (6) a production credit association; or (7) a trust company formed under Indiana law.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** Because the new deduction for interest income would serve to significantly decrease taxable income, counties imposing local option income taxes could potentially experience a substantial decrease in revenue from these taxes. Based on the current average LOIT rate of about 1.3%, the statewide LOIT revenue loss due to this deduction could range from \$28 M to \$30 M annually. The revenue loss from the bill could be lower to the extent that interest totals used for the estimates include forms of interest income not excluded under the bill.

**State Agencies Affected:** DOR.

**Local Agencies Affected:** Counties with local option income taxes.

**Information Sources:** OFMA Tax Return databases 1998-2005; IRS Statistics on Income, "Statistical Individual Income and Tax Data, by State and Size of Adjusted Gross Income: 2006", <http://www.irs.gov/taxstats/article/0,,id=171535,00.html>.

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